

Message Text

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PAGE 01 BUENOS 04693 01 OF 02 261613Z

53

ACTION EB-11

INFO OCT-01 ARA-16 ISO-00 PA-04 PRS-01 USIA-15 AID-20

CIAE-00 FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07

OPIC-12 SP-03 CIEP-02 LAB-06 SIL-01 OMB-01 AGR-20

DRC-01 /134 W

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FM AMEMBASSY BUENOS AIRES

TO SECSTATE WASHDC 7030

INFO USDOC WASHDC

LIMITED OFFICIAL USE SECTION 1 OF 2 BUENOS AIRES 4693

E.O. 11652: N/A

TAGS: ECON, ETRD, AR

SUBJ: NEW LAW OF SUPPLY STRENGTHENS GOA AUTHORITY TO CONTROL
PRIVATE ECONOMIC SECTOR.

REF: CERP ECONOMIC ALERT LIST, LATIN AMERICA

BEGIN UNCLASSIFIED:

1. SUMMARY: GOA PROMULGATED NEW LAW OF SUPPLY AND REPRESSION
OF HOARDING AND SPECULATION JUNE 24. MEASURE REAFFIRMS AND SUB-
STANTIALLY AMPLIFIES AUTHORITY OF GOA TO CONTROL PRICES AND
INTERVENE GENERALLY IN DOMESTIC ECONOMY AND FOREIGN TRADE TO
ENSURE ADEQUATE PRODUCTION AND SUPPLY OF GOODS AND SERVICES.
GOA IS GIVEN EXPLICIT AUTHORITY TO CONTROL DIRECTLY VIRTUALLY
EVERY STAGE OF COMMERCIAL AND INDUSTRIAL ACTIVITY. LAW DOES
NOT ADDRESS BASIC CAUSES OF INFLATION AND SUPPLY PROBLEMS,
AND FULL IMPLEMENTATION WOULD SERVE PRIMARILY TO INTENSIFY
PRESENT DISTORTIONS IN ARGENTINE ECONOMY. END SUMMARY.

2. ARGENTINE SENATE GAVE VIRTUALLY UNANIMOUS APPROVAL EARLY
JUNE 20 TO LAW OF SUPPLY AND REPRESSION OF HOARDING AND SPECU-
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PAGE 02 BUENOS 04693 01 OF 02 261613Z

LATION, AND GOA PROMULGATED LAW JUNE 24. GOA AUTHORIZED TO

TAKE WIDE RANGE OF ACTIONS TO ENSURE ADEQUATE PRODUCTION AND SUPPLY OF ESSENTIAL GOODS AND SERVICES. MANY OF THESE PROVISIONS WERE INCORPORATED IN EARLIER LEGISLATION, PARTICULARLY LAW 19.508 OF 1972 AND HAVE BEEN USED BY PERONIST GOVERNMENT OVER PAST YEAR IN EFFORTS TO CONTROL PRICES AND LOCAL SUPPLY SITUATION. HOWEVER, THE NEW STATUTE SERVES TO EXPAND AND AMPLIFY THE POWERS OF THE EXECUTIVE SUBSTANTIALLY IN THIS SPHERE, GRANTING IT CLEAR AUTHORITY TO CONTROL DIRECTLY VIRTUALLY ANY ASPECT OF ECONOMIC ACTIVITY WITHIN ARGENTINA.

3. FLAVOR IS GIVEN BY FIRST ARTICLE, WHICH ESTABLISHES THAT THE LAW APPLIES TO ALL ECONOMIC AND COMMERCIAL TRANSACTIONS RELATED DIRECTLY OR INDIRECTLY TO THE PRODUCTION AND DISTRIBUTION OF GOODS AND SERVICES IN THE FIELDS OF SANITATION, FOOD, CLOTHING, HYGIENE, HOUSING, SPORTS, CULTURE, TRANSPORTATION, HEATING, REFRIGERATION, AND RECREATION, AS WELL AS "ANY OTHER GOOD OR SERVICE WHICH SATISFIES--DIRECTLY OR INDIRECTLY--COMMON OR EVERYDAY NEEDS OF THE POPULATION". THIS ARTICLE FURTHER SPECIFIES THAT ITS AUTHORITY APPLIES TO ANY AND ALL STAGES IN THE ECONOMIC PROCESS. EARLIER LEGISLATION HAD APPLIED ONLY TO THE CONTROL OF SALES OF FINISHED PRODUCTS AT THE WHOLESALE AND RETAIL LEVEL.

4. THE MOST IMPORTANT MEASURES WHICH THE EXECUTIVE IS AUTHORIZED TO UNDERTAKE TO ENSURE DOMESTIC SUPPLY, ARE:

- A) SETTING MAXIMUM PRICES AND/OR PROFIT MARGINS FOR ANY STAGE OF ECONOMIC ACTIVITY, AS WELL AS FREEZING OF PRICES;
- B) SETTING MINIMUM OR SUPPORT PRICES;
- C) DICTATING RULES GOVERNING PRODUCTION, DISTRIBUTION, SALE, AND OTHER INTERMEDIATION RESPECTING GOODS AND SERVICES;
- D) OBLIGING COMMERCIAL AND INDUSTRIAL ENTERPRISES TO CONTINUE THEIR ACTIVITIES AND TO CONTINUE TO PRODUCE SPECIFIED GOODS AND SERVICES AT MONTHLY RATES WHICH THE GOA SHALL FIX;
- E) LOWERING OR SUSPENSION OF IMPORT DUTIES, AND EXTENSION OF SUBSIDIES AND OTHER TAX BENEFITS TO SUPPORT IMPORTS;
- F) PROHIBITING OR RESTRICTING EXPORTS;
- G) TEMPORARILY TAKING OVER MANAGEMENT OF COMMERCIAL AND INDUSTRIAL FACILITIES TO ENSURE CONTINUED OPERATION, FOR PERIOD OF UP TO 180 DAYS (RENEWABLE FOR CONSECUTIVE PERIODS UP TO TWO YEARS);

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PAGE 03 BUENOS 04693 01 OF 02 261613Z

H) EXPROPRIATION OF GOODS AND INDUSTRIAL SUPPLIES DURING "STATE OF ECONOMIC EMERGENCY", FOR SUBSEQUENT SALE TO CONSUMERS OR END-USERS (INDEMNIZATION SET AT COST PLUS TEN PER CENT, WITHOUT ALLOWANCE FOR REVALUATION DUE TO INFLATION).

5. LAW ALSO ESTABLISHES A SERIES OF ECONOMIC ACTIONS SUBJECT TO PENALTIES RANGING FROM FINES TO CLOSURE OF FIRMS. MOST IMPORTANT VIOLATIONS ARE:

- A) "EXCESSIVE" INCREASE IN PRICES OR OBTAINING "ABUSIVE PROFITS";
- B) REVALUATION OF STOCKS WITHOUT EXPRESS AUTHORIZATION OF EXECUTIVE;
- C) HOLDING OF STOCKS IN EXCESS OF THAT NEEDED TO SATISFY "HABITUAL PRODUCTION PLANS AND/OR DEMAND";
- D) CREATING UNNECESSARY INTERMEDIARY STEPS IN DISTRIBUTION AND COMMERCIAL PROCESS;
- E) DESTRUCTION OF MERCHANDISE OR ANY OTHER ACT WHICH WOULD TEND TO RESTRICT AVAILABILITY OF GOODS AND SERVICES;
- F) REFUSAL TO SELL OR "UNJUSTIFIED" RESTRICTION OF SALES OR REFUSAL TO EXPAND PRODUCTION WHEN GOA DEEMS ADDITIONAL PRO-
DUCTIVE CAPACITY EXISTS AND DEMAND IS RISING;
- G) FAILURE TO STOCK GOODS WITH OFFICIALLY FIXED PRICES, OR FAILURE TO SELL SIMILAR GOODS AT SUCH PRICES;

6. INDIVIDUALS OR FIRMS FOUND BY THE EXECUTIVE TO HAVE COMMITTED ANY OF THE ABOVE ACTS WILL BE SUBJECT TO THE FOLLOWING PENALTIES, DEPENDING ON THE CASE:

- A) FINES OF FROM 200 TO ONE MILLION PESOS, OR THREE TIMES THE ILLICIT PROFIT OBTAINED BY THE VIOLATION;
- B) ARREST FOR PERIOD UP TO 90 DAYS;
- C) CLOSURE OF ESTABLISHMENT FOR UP TO 90 DAYS;
- D) DENIAL OF BANK CREDITS TO VIOLATOR FOR UP TO TWO YEARS;
- E) SEIZURE OF MERCHANDISE;
- F) DENIAL OF INDIVIDUAL RIGHT TO ENGAGE IN COMMERCIAL ACTIVITIES OR HOLD PUBLIC OFFICE FOR ONE TO FIVE YEARS;
- G) SUSPENSION FOR UP TO FIVE YEARS FROM REGISTRY OF STATE SUPPLIERS, TO INCLUDE CANCELLATION OF CONTRACTS ALREADY IN EFFECT;
- H) SUSPENSION OF RIGHT TO USE TRADEMARKS AND PATENTS FOR UP TO THREE YEARS.

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PAGE 01 BUENOS 04693 02 OF 02 261558Z

53

ACTION EB-11

INFO OCT-01 ARA-16 ISO-00 PA-04 PRS-01 USIA-15 AID-20

CIAE-00 FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07

OPIC-12 SP-03 CIEP-02 LAB-06 SIL-01 OMB-01 AGR-20

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TO SECSTATE WASHDC 7031
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LIMITED OFFICIAL USE SECTION 2 OF 2 BUENOS AIRES 4693

7. AS A FURTHER PENALTY, STATUTE ALSO PROVIDES THAT, WHEN VIOLATION COMMITTED ON BEHALF OF "A JUDICIAL PERSON, ASSOCIATION, OR SOCIETY", THE FIRM MAY ALSO BE PENALIZED BY LOSS OF ITS LEGAL CORPORATE STATUS AND THE CANCELLATION OF THE CORRESPONDING LEGAL PREROGATIVES. CORPORATE OFFICIALS MAY ALSO BE HELD RESPONSIBLE AS INDIVIDUALS FOR VIOLATIONS, EVEN IF THEY DID NOT PARTICIPATE DIRECTLY, IF THE EXECUTIVE CONCLUDES THEY SHOULD HAVE KNOWN WHAT WAS BEING DONE AND SHOULD HAVE OPPOSED IT.

8. FINDINGS AS TO VIOLATIONS AND THE LEVYING OF PENALTIES ARE MADE THE RESPONSIBILITY OF THE "AUTHORITY OF APPLICATION", PRESUMABLY THE MINISTRY OF THE ECONOMY. SIGNIFICANTLY, THE LAW ALSO APPEARS TO PROVIDE THAT APPEALS FROM SUCH FINDINGS MUST BE SUBMITTED TO THE SAME AUTHORITY, RATHER THAN TO THE JUDICIARY. CLARIFICATION OF THIS POINT MUST AWAIT ISSUANCE OF THE REGULATORY DECREES.

9. OFFICIAL TEXT AND TRANSLATION WILL FOLLOW WHEN AVAILABLE.

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10. COMMENT: THIS NEW STATUTE EMBODIES, IN THE MOST EXTREME LIMITED OFFICIAL USE

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PAGE 02 BUENOS 04693 02 OF 02 261558Z

FORM SEEN TO DATE, THE PERONIST GOVERNMENT'S PREDILECTION TO HANDLE ECONOMIC PROBLEMS THROUGH THE PROGRESSIVE ELABORATION OF STATE CONTROLS OVER PRIVATE ECONOMIC ACTIVITY. FAR FROM HAVING ANY HELPFUL IMPACT ON ARGENTINA'S INCREASING INFLATIONARY PRESSURES AND DISTORTIONS OF NORMAL SUPPLY PATTERNS, THE MEASURE IS LIKELY TO AGGRAVATE THE PROBLEMS. IT DOES, HOWEVER, CREATE THE POLITICALLY USEFUL IMPRESSION THAT THE GOA IS PREPARED TO TAKE FORCEFUL ACTION AGAINST "ECONOMIC SABOTEURS OF THE SOCIAL PACTS". RECENT PUBLIC PRONOUNCEMENTS BY MINISTER OF ECONOMY GELBARD AND OTHER PUBLIC FIGURES HAVE, WITH INCREASED FREQUENCY AND SHRILLNESS, CHARGED THAT UNNAMED FOREIGN INTERESTS AND THEIR ARGENTINE SERVANTS ARE SABOTAGING THE SOCIAL PACT. THE STAGE IS APPARENTLY BEING SET TO MAKE THE LARGE PRIVATE COMPANIES, BOTH FOREIGN AND ARGENTINE-OWNED, THE SCAPEGOATS FOR THE SHORTCOMINGS OF THE SOCIAL PACT.

11. NONE OF THIS ADDRESSES BASIC FACTORS IN THE ARGENTINE ECONOMIC PROBLEM, AMONG WHICH ARE RISING PRICES AND RESTRICTED

AVAILABILITIES OF MATERIALS IN EXTERNAL MARKETS, RISING DOMESTIC DEMAND IN ANTICIPATION OF FURTHER INFLATION, RISING DOMESTIC LABOR AND MATERIAL COSTS, AND GREATLY DECREASED PROFITS, RANGING DOWN TO HEAVY LOSSES, THROUGHOUT THE LOCAL PRIVATE SECTOR. VASTLY EXPANDING THE SCOPE OF ECONOMIC CONTROL BY AN INEFFICIENT AND UNWIELDY BUREAUCRACY CAN ONLY MAKE THINGS WORSE. ALSO WORRISOME IS THE FACT THAT THE VARIOUS POWERS AND PENALTIES NOW AVAILABLE TO THE MINISTRY OF THE ECONOMY, APPARENTLY NOT SUBJECT TO JUDICIAL REVIEW, MAKE IT POSSIBLE TO PUT OUT OF BUSINESS ANY CONCERN WHICH WILL NOT OR CANNOT SATISFY THE DEMANDS OF THE BUREAUCRACY. THE POSSIBILITIES FOR GRAFT ARE LIKELY TO BE EXPLOITED TO THE FULLEST. INDEED, THE POTENTIAL FOR FURTHER ECONOMIC DISRUPTION WHICH WOULD FOLLOW ANY VERY VIGOROUS OR COMPREHENSIVE EFFORT TO IMPLEMENT THIS MEASURE WOULD SUPPORT THE VIEW HELD BY SOME THAT THE GOA WIL USE IT PRIMARILY AS A THREAT TO FORCE THE PRIVATE BUSINESS SECTOR INTO LINE IN ITS EFFORTS TO MAINTAIN ITS INCOMES POLICY, THAT IS, TRANSFERRING INCOME FROM PRIVATE INDUSTRY, COMMERCE AND AGRICULTURE TO WAGE EARNERS AND THE PUBLIC SECTOR. IMPLEMENTATION OF THE LAW CAN ONLY FURTHER DISCOURAGE PRIVATE ENTERPRISE HERE. END LIMITED OFFICIAL USE.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PRIVATE ENTERPRISE, LAW, SUPPLIES, PRODUCTION, ECONOMIC CONTROLS, ECONOMIC ALERT LIST (EAL) GUIDANCE, DURABLE GOODS, FOREIGN TRADE
Control Number: n/a
Copy: SINGLE
Draft Date: 26 JUN 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: WorrelSW
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974BUENOS04693
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740168-0646
From: BUENOS AIRES
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740613/aaaaakwi.tel
Line Count: 244
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: CERP ECONOMIC ALERT LIST, LATIN AMER, ICA
Review Action: RELEASED, APPROVED
Review Authority: WorrelSW
Review Comment: n/a
Review Content Flags:
Review Date: 05 SEP 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <05 SEP 2002 by boyleja>; APPROVED <05 MAR 2003 by WorrelSW>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: NEW LAW OF SUPPLY STRENGTHENS GOA AUTHORITY TO CONTROL PRIVATE ECONOMIC SECTOR.
TAGS: ECON, ETRD, AR
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005